STATE BOARD OF EQUALIZATION
STAFF LEGISLATIVE BILL ANALYSIS

Date Amended:	**07/12/07**	Bill No:	**AB 83**
Tax:	**Property**	Author:	**Lieber, et al**
Related Bills:		Position:	**Support**

BILL SUMMARY

This bill would establish the State-County Property Assessment and Revenue for Education Funding Program (PARE) to provide a framework for the use of state funding for property tax administration purposes for fiscal years 2008-09 through 2013-14. Program funding is conditional, as it would require an annual Budget Act appropriation.

SUMMARY OF AMENDMENTS

The amendments delay the affected fiscal years by one year into the future. As introduced, the bill would have covered fiscal years 2007-08 through 2012-13.

ANALYSIS

CURRENT LAW

Property Tax Administration Costs. Counties are responsible for the administration of the property tax. These duties include the assessment, equalization, collection, and property tax administration costs from the jurisdictions that receive the resulting property tax revenues, except for school entities. While counties can recoup a proportionate share of actual administrative costs from each recipient local jurisdiction, no costs are recoverable from school entities, which actually receive the greatest share of revenue. Therefore, counties must absorb the school's pro rata share of costs and, as such, have less incentive to fund the property tax administration system given competing needs that directly benefit the county.

State Funding. As a result, since 1995, the state has provided funds to cover some of the costs of property tax administration directly to counties. State funding was provided in recognition that the state has a financial interest in the property tax system, albeit indirectly, since property tax revenues collected offset the General Fund obligation to fund K-12 schools.

Existing law, through the annual Budget Act and Revenue and Taxation Code Sections 95.31 and 95.35, have provided counties with annual financial support in the amount of $60 million since 1995. Section 95.35 is the funding program applicable to the 2002-03 through 2006-07 fiscal years. However, as part of the 2005 budget agreement, the state did not fund the program for either the 2005-06 or 2006-07 fiscal years.

PROPOSED LAW

This bill would add Section 95.36 to the Revenue and Taxation Code to create a new state funding program for property tax administration purposes. It would be called the "State-County Property Assessment and Revenue for Education Funding Program" (PARE) and would provide financial support to counties through the annual budget process, if funds are appropriated for this purpose, for the 2008-09 through the 2013-14 fiscal years. The Department of Finance (DOF) would be responsible for administering this program and would be required to report to the Legislature by December 31, 2012 as to the effectiveness of the new program. The bill also requires that the Board assist the DOF in evaluating any particular county's use of funding, should DOF ever make such a request.

Under the PARE:

- The Board of Supervisors must adopt a resolution to participate.
- The resolution must include a detailed listing of the proposed uses for PARE funds.
- The assessor must consult with other county departments directly involved in property tax administration to develop an identifiable plan and performance measures relating to the use of the funds.
- Qualified actions include, but are not limited to, the completion and enrollment of changes in ownership, new construction, mandatory audits, and annual reviews of property under Proposition 8 status (i.e., decline in value assessments).
- If performance measures are not met, PARE funding would be reduced in the following year, as specified.
- Counties must maintain a base staffing and funding level in the assessor's office equal to the level in fiscal year 2004-05
- The DOF would determine, as specified, a county's pro rata share of PARE funding appropriated in the budget for any fiscal year.

BACKGROUND

The legislative history of the two prior property tax administration programs is summarized in the table below.

Year	Bill	Action
1995	AB 818 (Ch. 914, Vasconcellos)	Created the "State-County Property Tax Administration Program" Added R &T Code Section 95.31
1997	AB 719 (Ch. 420, Torlakson)	Extended Loan Program
2000	AB 1036 (Ch. 602, Wesson)	Extended the Loan Program Added the word "loan" to the name of the program: "State-County Property Tax Administration Loan Program"
2001	AB 589 (Ch. 521, Wesson)	Created the "State-County Property Tax Administration Grant Program" Converted the "Loan" Program to a "Grant" Program, previously all loans had been deemed "repaid" through increased property tax revenues collected. Added R& T Code Section 95.35
2006	AB 1717 Lieber	Would have created a PARE program similar to this bill. It was not enacted.

Both the Legislative Analyst's Office (LAO) in 1997 and 2001 and the State Auditor's Office in 2000 reviewed the effectiveness of the property tax administration programs.

The LAO recommended in 1997 and 2001 that the state assume a larger role in paying for the property tax administration system suggesting that a long term structural improvement solution should be sought, such as having the state pay for the schools' pro rata share of all growth in property tax administration expenditures rather than a loan or grant program. In 2000, State Auditor Findings on Loan Program from 2000 found that continuing the program "makes good business sense." The reports can be accessed below.

- LAO Report from 2001
- LAO Report from 1997
- State Auditor's Report from 2000

COMMENTS

1. **Sponsor and Purpose.** This bill is sponsored by the California Assessors' Association to establish the framework for a new program for the use of funds provided by the state to counties to support the costs of property tax administration.

2. **The July 12 amendments** change the affected fiscal years from 2007-08 through 2012-13 to 2008-09 through 2013-14.

3. **PARE: A new funding program.** Counties have received state funding since 1995. However, as part of the 2005 budget agreement, the state did not fund the program for either the 2005-06 or 2006-07 fiscal years. The PARE program would be a successor to the State-County Property Tax Administration Loan Program (1995-2001) and the State-County Property Tax Administration Grant Program (2001-2007).

   - The State-County Property Tax Administration Loan Program was created in 1995 and extended twice in 1997 and 2000. Loans were deemed "repaid" though enhanced property tax revenues.

   - The State-County Property Tax Administration Grant Program was created in 2001. The statutory authorization for that program sunsets this year. In 2006, AB 1717 would have created a new program similar to this bill, but was not enacted.

4. **These programs were created because the state has a financial interest in adequate funding of the local property administration system because the property tax revenues collected offset the General Fund obligation to fund K-12 schools.** Unlike all other entities that share in property tax revenues, schools are not required to pay a pro-rata share of the property tax administration costs that counties incur. Essentially, counties must absorb the schools' share of property tax administration costs. Consequently, county government officials have little incentive to invest in property tax administration.

5. **Property tax revenue allocations through the years.** In recent years, counties have received on average 19% of property tax revenues but have funded 71% of the administration costs. This year, due to a variety of changes such as the Triple Flip, it is anticipated that counties will receive 28% of the property tax revenues and pay 62% of the administration costs. Counties estimate that they spend $500 million dollars per year in property tax administration costs. The table below, based on data published by the LAO, gives a general overview of the changes in property tax

revenue distribution after key events that have triggered a substantive shift in revenue allocation.

Property Tax Revenue Distribution				
Time Frame	**Schools**	**Counties**	**Cities**	**Special Districts**
Pre-Prop 13 (1975)	53%	30%	10%	7%
Post-Prop 13 (1978)	39%	32%	13%	16%
Post-ERAF (1994)	**52%**	**19%**	11%	18%
Post-Triple Flip (2005)	**34%**	**28%**	19%	19 %

6. **Program funding is conditional, as it would require an annual Budget Act appropriation.** The Governor's Budget does not currently include funding for PARE. According to the California State Association of Counties**,** which had a budget briefing with the administration in January: "Administration officials noted that the Governor's spending plan would not include funding for counties' property tax administration programs. The state's fiscal analysis showed that their marginal benefit from this program had been decreased due to the Triple Flip, the VLF swap, the end of ERAF III, and other effects of Proposition 1A. Under the new structure, the state only collects 35-37% of increase property tax revenues, so property tax administration assistance is not in the state's economic interest." Should the budget ultimately provide funding, or if funding is provided in future years, then this bill would provide the necessary framework for the use and allocation of the funds.

COST ESTIMATE

This bill does not have direct costs to the Board. To date the DOF has never requested the Board's assistance in evaluating a county's use of state provided funds.

REVENUE ESTIMATE

This bill has no direct revenue impact.

Analysis prepared by:	Rose Marie Kinnee	(916) 445-6777	07/18/07
Contact:	Margaret S. Shedd	(916) 322-2376	

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